State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

Office of Financial and Insurance Services
Frank M. Fitzgerald, Commissioner

Division of Financial Institutions

MEMORANDUM

DATE: August 21, 2000

TO: Interested Parties

FROM: Frank M. Fitzgerald
Commissioner of the Office of Financial and Insurance Services

SUBJECT: Final Report and Certification Regarding the State of Competition in the Workers' Compensation Insurance Market and Commercial Liability Insurance Market

Pursuant to Public Act 8 of 1982 and Public Act 318 of 1986, I am submitting a consolidated final report on the state of compensation in the workers' compensation insurance market and the commercial liability insurance market. The analyses and economic tests of data performed since publication of the preliminary reports (workers' compensation on January 14, 2000 and commercial liability on February 18, 2000) indicate that there have been no substantive changes in the results of such analyses and economic tests. Accordingly, I am adopting the above-referenced preliminary reports as the final reports on the state of competition in the workers' compensation and commercial liability insurance markets.

I am also submitting my certification as to the presence of workable competition in the commercial liability insurance market and the workers' compensation insurance market.

CERTIFICATION OF THE STATE OF
COMPETITION IN THE

COMMERCIAL LIABILITY INSURANCE MARKET

I hereby certify that, based on the results of the economic tests specified in MCLA 500.240(c), a reasonable degree of competition exists at this time in the commercial liability insurance market.

Frank M. Fitzgerald

Frank M. Fitzgerald
Commissioner of the Office of Financial and
Insurance Services

DATE: ____August 23, 2000____

State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

Insurance Bureau
Frank M. Fitzgerald, Commissioner

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MEMORANDUM

DATE: February 18, 2000

TO: Interested Parties

FROM: Frank M. Fitzgerald
Commissioner of Insurance

SUBJECT: Preliminary Report and Certification Regarding the
State of Competition in the Commercial Liability Insurance Market

Attached is a copy of the preliminary report on the state of competition in the commercial liability insurance market and my certification as to the presence of workable competition in the market during 1999. The report was held for one month to allow the inclusion of the profitability report data issued in late January by the National Association of Insurance Commissioners.

This report and certification were prepared in accordance with the requirements of Section 2409 of the Insurance Code, MCLA 500.2409(c).

Attachment

STATE OF MICHIGAN

DEPARTMENT OF CONSUMER & INDUSTRY SERVICES

INSURANCE BUREAU

THE STATE OF COMPETITION IN THE COMMERCIAL LIABILITY INSURANCE MARKET

PRELIMINARY REPORT 1999

By: Frank M. Fitzgerald

Commissioner of Insurance

Dated: February 2000

FIS – PUB 5005

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This report reviews and determines the state of competition in the commercial liability insurance market in Michigan. This preliminary report has been mandated to evaluate this market for calendar year 1999 as required by Public Act 318 of 1986. Its purpose is to determine if this market has allowed adequate competition to keep commercial liability insurance premiums at levels which are not excessive or unfairly discriminatory. Generally accepted economic tests are to be used to determine that current market structure, conduct and performance are conducive to workable competition.

Unfortunately, there is no state specific data upon which to write this report. New data presented in this report consist of profitability data for commercial lines of insurance created and published by the National Association of Insurance Commissioners (NAIC). Analysis primarily centers upon how these results affected the conclusions expressed in the final commercial report issued last August. For this reason this report is a shorter version of the final report for 1998. It also contains a brief review of national data published in other trade publications.

A public hearing was held on November 17, 1999, to elicit public comment as to the state of competition in the commercial liability insurance market. Public notice was provided to all parties interested in insurance issues and many of the business trade associations in Michigan. Despite adequate notice, no representatives of either business or insurance companies appeared to testify at the hearing. Since the hard market of 1985 to 1987, there has been a remarkable, sustained soft market. Few complaints with respect to commercial liability insurance have been received over the last year.

Impact of the Underwriting Cycle

In 1988, when this report was first issued, insurers had experienced an unanticipated change in the litigation climate, which led to operating losses. These operating losses together with less than anticipated investment gains resulted in low profitability by insurers during 1984 and 1985. This was reflected by generally high statewide average loss ratios and low return on net worth. This poor performance resulted in the loss of surplus and confidence by admitted insurers who in reaction reduced their insurance exposure. As a result, insurance availability was reduced with the void largely picked up by surplus lines insurers. The surplus lines share grew from 6.7 percent of total business liability insurance premium in the state in 1984 to 15.3 percent in 1988. With the surplus lines insurers came widespread increased premium rates especially for certain high-risk lines in 1985 and 1986. This situation led to the capture of large market shares by surplus lines insurers in several markets. This increase in rates and the decline in availability was not limited to Michigan, but was a nationwide phenomenon.

With this hard market, there arose a public outcry over the high cost of litigation and insurance leading to the suggestion of a political solution. The legislature, expressing its concern over these issues, provided several changes in tort liability law in an attempt to reduce unwarranted litigation. They also required the Insurance Bureau to report on the status of competition in these markets, allowing them to monitor the impact of their initiatives.

From 1987 through 1992 markets began to soften as insurer profitability, as shown by lower loss ratios and higher return on net worth, returned. Premiums over this period were stable or retreating. Surplus lines market concentration has trended downward for the liquor and municipal liability lines since the hard markets of 1985 to 1986. However, some lines of insurance still seemed to have problems with availability as the penetration of surplus lines insurers did not retreat. Surplus lines concentration rose significantly for medical malpractice insurance through 1990 but has since trended downward. Other commercial liability is the one line where surplus lines volume has not retreated and has increased the last few years.

In 1994, there was concern within the industry that insurance was under-priced, and commercial liability loss ratios did rise somewhat on average. This concern did not stop the continuation of the soft market through 1998. Over the last few years, even as premiums have been falling, insurer profits have been rising. This is especially true with the medical malpractice insurers in Michigan, who had their best years of the decade in 1995 through 1998 as measured by rates of return on net worth and loss ratios. It would appear medical malpractice insurers are diversifying into other lines of insurance using their added surplus as opposed to absorbing business from the surplus lines market.

A. M. Best's Company tracks and reports on some national data as part of its insurance company tracking services. Much of the national results recently published by Best's point to continued soft markets through the end of 1999. Best's reported rising loss ratios, which are indicative of insurers competing for business. On the other hand, loss ratios have risen to the point where insurers are beginning to worry about the adequacy of their reserves. This could mean markets are approaching an end to declining rates and that in the year 2000 property and casualty insurance premiums will probably level off.

Conclusions

Preliminary national indications are that 1999 was a good year for buyers of commercial lines of insurance. Business experienced small declines in their insurance premiums. Insurers still have rates that are adequate to maintain their profitability. It is not unreasonable to conclude that this market remained quite competitive during 1999.

Based on this information, market intervention by the commissioner appears to be unwarranted. However, the Bureau will continue to monitor the markets for commercial liability insurance to ensure that competition maintains reasonable rate levels and availability of coverages.

Section 2409(c)(1) of the Insurance Code requires a certification from the Commissioner as to whether competition exists in Michigan's commercial liability insurance market. This certification can be found at the end of this report.

BACKGROUND

In the mid-1980s, concern regarding the so-called "liability crisis" caused businesses to approach the legislature for a legislative solution to the high costs associated with liability insurance. Concern that this market was not operating efficiently led to the suggestion of increased regulation of what is now a largely free market. Resistance to the regulatory solution was founded on the fact that little was known about this aspect of the insurance market. In an effort to gather further information, Section 2409(c) of Public Act 318 of 1986, requires the Insurance Bureau to evaluate the state of competition in the commercial liability insurance market. The purpose of this report is to fulfill that mandate.

Section 2409(c) mandates both a preliminary and a final report on the sate of competition. The requirement for a preliminary report is an artifact of the notion that data similar to the worker's compensation insurance market would be available for the commercial liability market. The data for the worker's compensation insurance market is taken from data submitted directly to the Compensation Advisory Organization of Michigan (CAOM) by agents as they write worker's compensation insurance policies. Thus, the data can be provided by the CAOM as requested by the bureau on both an annual and semi-annual basis.

The data for the commercial liability report comes from insurance company Annual Statements submitted once a year in March following the calendar year the statement covers. The data is submitted to the National Association of Insurance Commissioners (NAIC) and the states. The data is encoded by the NAIC and is typically available to the states in June of each year. This is the data that is used in the bureau's by-line reports and Annual Report. The bulk of the data for the commercial liability report comes from this NAIC database. The surplus lines data arrives semi-annually and calendar year statistics are not available until March of each year.

The profitability data used in this commercial report also comes from the NAIC. The profitability statistics are generated from the Annual Statement data after the data are encoded. The NAIC's Profitability Report typically comes out in November or December of the year following the statement year.

As a result of the arrival times of these data, when the final report is produced in August there is new data available upon which to report. The timing of the profitability statistics requires that the data from two years prior be used. The preliminary report, which is due January of each year has no new data upon which to report except for the profitability data. This is presuming that the NAIC's Profitability Report has been published within the typical timeframe. Unfortunately, changes in the methods of calculating the profitability statistics has delayed the Profitability Report the last couple of years until a January publication date. This has resulted in the delay of the commercial report.

In this preliminary report we will present the new profitability statistics published by NAIC that arrived at the end of January. Since the bulk of the exhibits used in the commercial report are unchanged, we would suggest that those who are interested, refer to the State of Competition in the Commercial Liability Insurance Market - Final Report 1998, that was published in August of 1999. In this report are all of the statutory criteria for evaluating competition, the economic theory behind the analysis within the report, the exhibits reviewing the market structure in each insurance line, and the analysis of market structure and conduct. Much of the market performance data are from the Profitability Report, which include Loss Ratio and Return on Net Worth statistics for Medical Malpractice and Other Commercial Liability insurance lines. This preliminary report reviews this data, which consist of comparisons across the states.

Report Outline

This preliminary report is to provide an evaluation and certification regarding the state of competition in the commercial liability insurance market for 1999, as required by Public Act 318 of 1986. However, as discussed earlier, state specific data does not arrive at the bureau until March and the bulk of this data is not available until June of each year.

The data used in this report comes primarily from data filed by insurers each spring in their annual financial statements covering the previous calendar year. A public hearing addressing the issue of competition in the commercial liability insurance market was held on November 17, 1999. Information and testimony from hearings and subsequent submissions are to be used in preparing this report. However, there has been no testimony at these annual hearings since 1995.

The remainder of the report is organized into five sections. The first covers the economic theory associated with the use of loss ratios and return on net worth in evaluating market performance. The second section covers any public hearing testimony received at the bureau. The third section covers the 1998 NAIC profitability data for medical malpractice insurance and how this data affects the conclusions presented in the final report published in August. The fourth section covers the 1998 NAIC profitability data for commercial liability insurance and how this data affects the conclusions presented in the final report. The final section reviews information on national trends from Best's and any implications the data might have for Michigan. The exhibit labels presented here have been maintained from the final report to facilitate comparisons.

I. Economic Theory Regarding Market Performance

According to economic theory, a competitive market will achieve an optimal allocation of resources. Specifically, this means that the market price will equal the cost of the last unit of output, each firm will produce at a level of output where its average cost is at a minimum, and investors will receive a rate of return just equal to the cost of capital. In effect, a competitive market structure causes firms to behave competitively, which in turn leads to "good" market performance. If the Michigan commercial liability insurance market exhibits workable competition, its performance should reasonably approach that which would be achieved under perfect competition.

Profitability - Loss Ratios

A useful index of the industry's overall efficiency and profitability is the statewide loss ratio, which can be calculated by dividing incurred losses by earned premium. In any given year, losses reported by insurers include current year losses plus changes in estimated liabilities for prior policy periods. A loss ratio is calculated as incurred losses divided by premiums earned during the policy period. The loss ratio reveals the amount of actual loss protection received for each premium dollar paid. The portion of premiums not paid out in losses is available for expenses and profits. All else equal, higher loss ratios suggest greater cost efficiency and/or decreased profitability, while lower loss ratios imply decreased cost efficiency and/or increased profitability. Higher loss ratios would be the expected result of an increase in competition and lower rates. Conversely, lower loss ratios would be the expected result of less competition and higher rates.

There is the question of what loss ratio would permit insurers to earn a fair rate of return on investment in the commercial liability insurance industry and be consistent with a reasonable degree of competition. The derivation of such a loss ratio would be dependent upon assumptions about investment income, expenses, premium to surplus ratios, as well as the shape of the loss-tail to which it applies. The loss-tail refers to the shape of the stream of loss claims covered by the insurance policy. A long loss-tail means claims are typically paid many years subsequent to the policy year. Given the pattern of the loss payout data, it might be possible to calculate a hypothetical competitive loss ratio to serve as a rough benchmark that could be compared with actual experience to assess the overall efficiency of the industry.

Comparison with respect to an absolute hypothetical loss ratio is not the only way to look at insurer profitability. One good way is to compare statewide loss ratios and profitability measures for Michigan relative to other similar Great Lakes states and the rest of the United States. This is what was done in the Bureau's report on the state of competition in the workers' compensation insurance market.

For the purposes of the final reports and this report, calendar year loss ratios are shown in the (c) exhibits for Michigan and the Great Lakes states and countrywide. The exhibit labels have been maintained from the final report to facilitate comparisons. Appendix E contains the same information for all states. A column is added for each year of data which shows the state's rank order among the 50 states and District of Columbia. The states are ranked from lowest to highest loss ratio, i.e. lower rank order implies higher profits.

Using this information, comparisons of Michigan insurers' profitability relative to other states can be made and conclusions drawn. However, care should be taken in using these calendar year loss ratios because they compare incurred losses to premiums collected in the same calendar year rather than to the premiums actually collected for the policy years to which the losses are attributable. Since for many commercial liability lines only a small portion of calendar year losses are actually assigned to the premiums paid that year, an individual carrier's loss ratio will vary considerably depending upon whether they are expanding or contracting the volume of business. As a result, such individual ratios may not be useful for ratemaking purposes. To the extent that, in aggregate, loss tails are fairly consistent from year to year, statewide loss ratios are a good indicator of state-to-state profitability and efficiency. The source for the (c) exhibits is the National Association of Insurance Commissioners profitability reports which use state page by-line data from insurers' annual reports.

Profitability - Return on Net Worth

The National Association of Insurance Commissioners (NAIC) has developed profitability reports by state and by-line of coverage. The by state by-line measure of profitability that will be examined here is the return on net worth. Return on net worth is a percentage determined as the NAIC's estimates of operating profits in each line for a state divided by the NAIC's determination of net worth allocated to each line for the given state. While this particular ratio is straightforward, the NAIC's calculations used to derive the numerator and denominator of this percentage return are complex and controversial. A discussion of the NAIC methodology appears in Appendix G.

Underwriting Cycle

While the conditions for perfect and workable competition are stated in static terms, another factor, the underwriting cycle, is also important in the short-term performance of the commercial liability insurance industry.

The underwriting cycle is characterized by successive periods of increasing and diminishing competition. Competitive or "soft" markets are characterized by falling premium rates, increased availability, growing loss ratios, and diminished surplus. These conditions eventually force loss ratios to critical levels causing insurers to raise their rates, restrict coverages and reduce their volume. In the especially hard part of the cycle, surplus lines insurers can come to dominate what are less profitable coverages for admitted insurers as is evident from Exhibit 1. Eventually, increased rates and restrictiveness of coverages restores insurer profitability and surplus. This situation then spurs another round of price cutting which can perpetuate the cycle.

The status of competition in the Michigan commercial liability insurance market must be evaluated in a longer-term context. Short-term increases in rate levels and profitability do not necessarily indicate a lack of competition if previous rates have not been sufficient to cover costs. A lack of competition would be indicated by a sustained period of excessive rates with no movement back to reasonable levels. Competition should prevent rates from becoming excessive for any extended period of time. The objective of this report is to determine whether the Michigan commercial liability insurance market reasonably meets the standards of workable competition in a long-term context.

II. PUBLIC HEARING TESTIMONY

On November 17, 1999, a public hearing was held to elicit public comment regarding the state of competition in the commercial liability insurance market. No representatives of business appeared at the hearing. The only testimony ever received from business was in 1988 in regard to several canoe livery businesses that were having short-term problems obtaining insurance. The absence of representatives of business since 1988 may be a sign that businesses are not having problems with commercial liability insurance. Unfortunately, the lack of business participation may also mean they are unaware of the existence of a forum in which to air their insurance problems. Only two observers associated with insurance companies were present at the hearing; no one testified.

The American Insurance Association has in the past submitted testimony for this report but since 1995 they have not expressed an opinion regarding the status of competition in this market.

III. MEDICAL MALPRACTICE LIABILITY INSURANCE

Between 1982 and 1993, the medical malpractice insurance market grew from 12 to almost 25 percent of all commercial liability insurance premiums written. This percentage has fallen to back 20 percent in 1998. Medical malpractice insurance is distinct from other lines of insurance in the unusually lengthy amount of time between the occurrence which created the potential liability and the date on which the liability litigation is resolved and payment on the claim is due. This is true even after the tort reforms in Public Act 349 of 1993, which limited the amount of time that can elapse between the point in time a medical problem manifests itself and the point when an individual can file a claim. The liability tail remains long because it can be many years before a problem manifests itself. A problem associated with insurance lines with inordinately long liability tails is the extreme difficulty in defining proper premium rates due to economic and litigation uncertainties.

Problems in availability and price of medical malpractice insurance first appeared in the liability crisis of the mid-1970s when low profitability led to the departure of many traditional insurers from the market. There were several significant changes that arose out of this situation. One was the growth of physician and hospital sponsored insurers. Another was the movement from predominantly occurrence policies to claims-made policies. An outgrowth of the tight markets of 1985 to 1987 was the movement to surplus lines insurers, risk retention groups, purchasing groups and offshore captive insurers. That movement continued through 1990, leveled off until 1993, and has subsequently declined.

Market Performance

Exhibit 2(c) displays loss ratios for the last ten years through 1998 for the Great Lakes states, which display similar economic traits to Michigan's. Appendix E-1 provides this same information for all the states. A lower loss ratio gives a state a higher ranking (the state with the lowest loss ratio would be ranked 1) which is favorable from the standpoint of insurers and unfavorable from the purchaser=s viewpoint. Based on national averages since 1985, a loss ratio of around 75 to 80 percent would probably give insurers a reasonable level of profitability at reasonable premium rates.

The loss ratio for medical malpractice in 1985 in Michigan was 189.4 percent. This is noteworthy in that it indicates that Michigan insurers incurred great losses that year. At that point in time, concern about loss development trends became so great that the Insurance Bureau insisted malpractice insurers raise their premium rates to ensure adequate reserves for losses. The impact of these increases has been shown in the reductions in loss ratios in 1986 to 1989. The loss ratios for 1989 through 1998 are indicative of adequate rate levels and more profitable years. For the ten year period 1989 to 1998, the loss ratios for the United States have been very stable averaging around 61 percent, which probably reflects that on a national basis this line has been a profitable over the decade.

The loss ratios for Michigan closely tracked the countrywide figures for most years through 1994. In the years 1995, 1996, 1997 and 1998, the Michigan statewide loss ratios trended upward at 26, 38, 32 and 43 percent respectively. These loss ratios depart significantly from the national figures. As a whole these last four years have been very profitable years for Michigan medical malpractice insurers. This profitability is typically due to the release of excess reserves from prior years= claims as the result of favorable resolution of claims. Claims costs could be lower than anticipated with the declines in medical and overall inflation rates as well as advances in medical technology.

As mentioned earlier, caution should be used in making conclusions regarding insurer profitability based on loss ratios because calendar year loss data is not valid in assessing the adequacy of rates and resulting profitability for liability lines. This is because calendar year loss ratios compare premiums collected in a given calendar year to losses incurred that year, which are mostly attributable to earlier policy years of coverage. Thus, current premium rates might not be excessive if the low loss ratios that are currently being observed are due to the favorable resolution of claims.

Exhibit 2(d) displays Return on Net Worth (RONW) for the Great Lakes states since 1989 based upon calculations made by the NAIC. Appendix F-1 provides this same information for all the states. Appendix G provides a brief explanation of how the NAIC calculated this data. A lower RONW implies a higher ranking among the states which is favorable from the standpoint of purchasers and unfavorable from the insurer's viewpoint. Note that this favorability is the converse of that for the loss ratio rankings.

Throughout the period 1986 to 1994, the medical malpractice insurance market in Michigan stayed near the median relative to most comparable states and countrywide, at least until 1995. The RONW statistics indicate that the period from 1995 through 1998 has been more profitable for Michigan's medical malpractice insurance companies. However, the trend in insurer profits has been downward over this period. The RONW figure for 1998 at 15.4 percent indicates a return to more typical profitability levels. The downward trend since 1995 shows that the participants in this market are behaving competitively. The rate of return on net worth figures for Michigan has averaged 18.2 percent since 1989, 3.6 percent more than the countrywide average. Looking at average profitability over the whole period, insurer profits are not excessive.

Perhaps as a result of improved profitability, the share of premiums going to surplus lines has trended downward since 1990. This is reflected in the last column of Exhibit 2(b) of the final report. This decline seems to indicate an improvement in the availability of medical malpractice insurance.

Evaluation of Competition

Based upon the evidence presented here and in the final report it would appear that the market for medical malpractice insurance is dominated by a few domestic captive insurance companies whose overriding purpose has been to control the rate of increase in premiums and to make medical malpractice insurance available to their constituent groups. Those not accepted for coverage by one of these insurers are often forced into surplus lines insurance. This observation is largely based on conjecture as the bureau has not received complaints regarding insurance affordability or availability.

One of the side effects of the underwriting cycle may be that insureds for which the market temporarily dries up during the market contraction phase may find attractive alternatives to their previous insurance arrangements. They may create their own insurers to provide competition for their former insurers. There has been a significant growth of surplus lines insurers, offshore captives, and risk retention groups and purchasing groups formed under the federal Risk Retention Act since 1989. This is indicative that many physicians and hospitals are electing to remove themselves from the traditional insurance markets.

Exhibit 2(c)

Loss Ratios - Medical Malpractice with Rank of State (lowest L/R to highest) 1989 - 1998

YEAR	1998 LossR	Rank	1997 LossR	Rank	1996 LossR	Rank	1995 LossR	Rank	1994 LossR	Rank	1993 LossR	Rank	1992 LossR	Rank	1991 LossR	Rank	1990 LossR	Rank	1989 LossR	Rank	Average LossR	Rank
US	73.0%		57.8%		62.9%		59.3%		59.3%		64.6%		69.5%		55.7%		53.9%		53.2%		60.9%	
Illinois	81.8%	35	55.8%	24	54.6%	20	73.7%	39	86.7%	45	99.9%	49	108.9%	48	84.1%	45	63.6%	44	65.4%	38	77.5%	45
Indiana	30.2%	8	25.3%	9	55.8%	21	57.1%	29	19.5%	6	35.6%	10	17.1%	5	39.1%	17	46.6%	28	14.6%	2	34.1%	4
Michigan	43.4%	14	32.0%	12	38.1%	7	26.4%	4	59.6%	33	60.9%	37	57.7%	33	63.6%	38	59.3%	39	51.6%	23	49.3%	19
Minnesota	61.5%	20	-8.9%	2	70.0%	31	27.8%	5	38.3%	13	32.8%	7	38.3%	18	50.3%	27	18.9%	5	18.7%	4	34.8%	5
New York	78.5%	34	21.9%	8	49.5%	16	46.7%	15	73.3%	37	95.0%	47	144.7%	49	77.4%	44	64.8%	45	43.1%	16	69.5%	39
Ohio	92.0%	39	86.1%	38	79.3%	36	75.4%	41	50.0%	23	78.1%	44	63.9%	35	54.6%	33	44.6%	24	59.3%	32	68.3%	37
Pennsylvania	75.7%	30	70.7%	30	67.2%	30	56.9%	28	35.0%	9	51.6%	24	23.0%	6	102.2%	49	60.1%	42	40.3%	10	58.3%	31
Wisconsin	13.9%	3	-7.2%	3	13.0%	2	45.9%	14	19.0%	5	27.1%	5	45.6%	25	48.9%	26	59.5%	40	46.5%	19	31.2%	3

Exhibit 2(d)

Return on Net Worth (RONW) - Medical Malpractice with Rank of State (lowest RONW to highest) 1989 – 1998

YEAR	1998 RONW	Rank	1997 RONW	Rank	1996 RONW	Rank	1995 RONW	Rank	1994 RONW	Rank	1993 RONW	Rank	1992 RONW	Rank	1991 RONW	Rank	1990 RONW	Rank	1989 RONW	Rank	Average RONW	Rank
US	7.6%		12.6%		12.6%		12.7%		13.7%		15.3%		15.5%		15.9%		17.4%		22.5%		14.6%	
Illinois	5.7%	21	12.9%	27	18.2%	43	7.6%	18	5.4%	15	3.6%	7	5.5%	6	3.1%	11	14.4%	18	18.1%	25	9.5%	13
Indiana	14.8%	40	11.2%	26	11.2%	26	9.1%	21	23.3%	40	23.5%	40	31.1%	41	25.6%	38	22.2%	27	45.5%	48	21.8%	43
Michigan	15.4%	41	19.5%	42	20.4%	46	23.5%	48	13.8%	26	18.9%	31	22.1%	30	12.0%	17	13.8%	14	23.0%	29	18.2%	33
Minnesota	10.3%	30	35.9%	51	9.2%	24	28.2%	51	24.1%	41	32.1%	48	33.6%	44	17.8%	24	45.5%	46	53.3%	49	29.0%	51
New York	9.7%	29	20.7%	46	18.8%	45	19.9%	42	14.4%	29	13.8%	18	4.0%	5	13.3%	18	17.4%	22	29.2%	38	16.1%	29
Ohio	-4.3%	9	4.7%	16	6.8%	19	6.5%	15	19.7%	36	12.4%	14	21.9%	28	13.4%	19	21.4%	25	14.1%	18	11.7%	17
Pennsylvania	4.9%	19	8.4%	23	7.2%	20	10.5%	25	30.1%	47	20.3%	34	44.7%	49	-7.5%	4	13.8%	14	33.6%	44	16.6%	30
Wisconsin	18.9%	45	28.3%	49	25.1%	48	19.4%	41	28.0%	45	30.0%	47	25.0%	35	18.4%	26	10.5%	9	25.4%	33	22.9%	46

Loss Ratio and Return on Net Worth Data from NAIC Report on Profitability By-line By State 1998

The market for medical malpractice insurance may be characterized as an oligopolistic one with great concentration of market share among the top three insurers. Offsetting this negative aspect of the market is the fact that the top four insurers were formed by health providers more in reaction to high premiums and lack of availability of adequate coverage than for profit. On the whole, this market appears competitive.

This conclusion is supported by the average loss ratios and average return on net worth exhibited over time by the industry. Improved profitability for the period from 1988 to 1998 has resulted in an improved financial position for these insurers since the hard market of 1985. The improved profitability has encouraged the entry of new insurance companies, a lessening of market concentration, and a reduction of premium going to surplus lines carriers. However, this market remains oligopolistic and the new market participants may have a difficult time encroaching on the established territories of the larger insurers.

IV. <u>OTHER COMMERCIAL LIABILITY INSURANCE</u>

The other commercial liability insurance line is a catchall category that contains a major portion of all commercial liability insurance. For reporting purposes through 1990, this line included all types of commercial liability insurance except medical malpractice liability. Specifically, other commercial liability included municipal, liquor and product liability through 1990. In 1991, changes to insurers' annual financial statements required separate reporting of the product liability insurance line. Other commercial liability also includes liability coverages such as general, directors and officers, manufacturers and contractors, errors and omissions, environmental impairment, protective, legal and contractual.

Market Performance

Exhibit 3(c) displays over ten years the loss ratios calculated by the National Association of Insurance Commissioners (NAIC) and national rankings (highest being 1) for the Great Lakes states which display similar economic traits to Michigan's. Appendix E-2 provides this same information for all the states. The states are ranked in order from lowest loss ratio to highest. Thus, a lower loss ratio implies a higher ranking among the states which is favorable from the standpoint of insurers and unfavorable from the purchaser's viewpoint.

Exhibit 3(c) begins two years after the hard underwriting cycle of 1985 to 1987. The loss ratio for 1985 was highest in recent years, at 111 percent. After 1985, loss ratios trended downward for four years and then varied in a very profitable range through 1993. The loss ratio rose to the high for this decade in 1994 during the last hard market. Statistics published by Best's confirmed that in 1984 and 1985 property and casualty companies nationwide lost money on operations before taxes.

A review of Exhibit 3(c) reveals that the statewide loss ratios for Michigan have somewhat consistently followed national loss ratio experience over the ten years presented, averaging 62.7 percent in Michigan versus 70.5 for the United States as a whole. Michigan loss ratios for other commercial liability insurance in 1996 and 1997 were 47 and 34 percent respectively, which is indicative of highly profitable years for insurers. Based on the data from 1998, the 80.6 percent level of incurred losses could be the point above which profits could be starting to be pinched. The 1998 national loss ratio, at 71 percent, shows an average year.

On average, Michigan has been at the median of the Great Lakes states and slightly above the average national median loss ratio. Thus, based on the evidence in Exhibit 3(c) for 1989 to1998, insurers' profitability in Michigan does not appear to be out of line when compared with the rest of the nation or similarly placed states.

Exhibit 3(d) displays for other commercial liability, return on net worth (RONW) for the Great Lakes states since 1989 based upon calculations made by the NAIC. Appendix F-2 provides this same information for all the states. The states are ranked in order from lowest return on net worth to highest. Thus, a lower return on net worth implies a higher ranking among the states which is favorable from the standpoint of purchasers and unfavorable from the insurer's viewpoint (the opposite perspective of the loss ratio ranks because of the nature of the calculation). Appendix G provides a brief overview of how the NAIC calculates the RONW data.

Exhibit 3(d) shows the last ten years beginning in 1989. In 1985, Michigan had a total return on net worth with a value of -1.4 percent. Since 1985 there was a period of increased profitability from 1986 to 1989. Since 1989 the Michigan commercial general liability insurance market profit has been at or near the average of the Great Lakes states, and slightly more than average countrywide. The insurer return on net worth averaged 8.2 percent of net worth countrywide and 12.9 percent in Michigan since 1989. Michigan's average rank, at 21st, should look good from the purchaser's viewpoint.

The 1994 data showed a loss in the other commercial liability insurance lines in Michigan. This loss proved transient, as profitability has subsequently soared to new heights. The insurance market has continued to be increasingly soft since 1994. The data for 1995 through 1997 indicate a rebound in insurers' profitability. Based on the 1998 data, the RONW fell to levels where insurers could experience their profits being somewhat pinched.

If one considers the evidence on insurer profit in the other commercial liability insurance lines over the period of time covered by the data, it can be concluded that insurer profits have not been excessive.

Exhibit 3(c)

Loss Ratios - Other Liability with Rank of State (lowest L/R to highest)
1989 - 1998

YEAR	1998 LossR	Rank	1997 LossR	Rank	1996 LossR	Rank	1995 LossR	Rank	1994 LossR	Rank	1993 LossR	Rank	1992 LossR	Rank	1991 LossR	Rank	1990 LossR	Rank	1989 LossR	Rank	Average LossR	Rank
US	71.0%		62.1%		71.7%		80.6%		71.1%		77.1%		73.0%		64.6%		64.5%		68.8%		70.5%	
Illinois	86.7%	45	53.0%	27	61.7%	33	98.8%	45	82.7%	46	106.7%	48	50.8%	28	84.4%	45	62.2%	37	64.5%	35	75.2%	45
Indiana	20.1%	2	85.0%	47	48.3%	18	75.7%	38	61.9%	35	60.6%	29	61.5%	38	44.2%	19	35.5%	5	53.1%	20	54.6%	24
Michigan	80.6%	37	33.7%	12	46.7%	16	73.0%	34	99.6%	49	70.8%	38	64.6%	39	52.4%	31	57.7%	33	48.2%	15	62.7%	35
Minnesota	54.5%	24	54.8%	31	51.3%	21	61.7%	21	58.4%	28	41.5%	13	44.3%	17	43.1%	18	50.0%	21	46.8%	11	50.6%	19
New York	91.6%	48	101.6%	50	106.8%	50	102.5%	46	97.8%	48	86.7%	43	94.6%	49	76.3%	41	77.6%	48	75.1%	45	91.1%	50
Ohio	47.6%	15	56.4%	33	87.4%	47	71.5%	33	70.6%	39	69.2%	37	43.7%	14	49.0%	26	58.8%	34	119.9%	51	67.4%	40
Pennsylvania	55.4%	26	117.0%	51	84.3%	45	109.0%	48	107.0%	51	91.0%	45	74.3%	43	65.6%	39	60.4%	35	67.6%	42	83.2%	48
Wisconsin	49.4%	20	41.4%	20	29.1%	3	64.3%	23	54.0%	22	55.9%	24	47.1%	22	51.1%	29	49.8%	20	56.3%	27	49.8%	17

Exhibit 3(d)

Return on Net Worth (RONW) - Other Liability with Rank of State (lowest RONW to highest)
1989 - 1998

YEAR	1998 RONW	Rank	1997 RONW	Rank	1996 RONW	Rank	1995 RONW	Rank	1994 RONW	Rank	1993 RONW	Rank	1992 RONW	Rank	1991 RONW	Rank	1990 RONW	Rank	1989 RONW	Rank	Average RONW	Rank
US	9.7%		12.1%		8.6%		2.6%		6.3%		6.4%		8.3%		10.3%		9.5%		8.3%		8.2%	
Illinois	5.7%	11	15.9%	26	11.6%	21	-1.8%	9	3.4%	11	-2.8%	7	20.3%	34	-0.5%	9	11.9%	17	13.0%	20	7.7%	8
Indiana	22.9%	48	7.3%	10	16.7%	35	3.9%	15	11.8%	25	14.5%	28	15.0%	20	21.0%	32	29.5%	47	17.7%	29	16.0%	30
Michigan	12.2%	23	22.0%	39	18.6%	40	8.4%	28	-1.4%	3	7.9%	15	15.5%	23	15.5%	22	11.1%	15	20.6%	36	12.9%	21
Minnesota	4.6%	9	15.7%	25	14.6%	28	8.0%	27	10.8%	22	23.1%	42	23.0%	43	22.4%	37	18.6%	32	24.0%	41	17.2%	37
New York	5.5%	10	3.0%	3	1.0%	3	0.5%	12	-0.8%	4	5.1%	11	1.4%	4	6.3%	11	3.6%	6	6.4%	10	3.2%	4
Ohio	16.6%	42	12.6%	16	4.4%	8	7.7%	26	7.2%	14	10.8%	19	22.9%	42	19.9%	30	15.1%	24	-25.1%	1	9.2%	10
Pennsylvania	13.1%	29	0.5%	1	4.8%	9	-3.6%	5	-10.7%	1	-1.1%	8	6.8%	8	10.6%	13	12.4%	19	10.0%	15	4.3%	5
Wisconsin	15.4%	34	16.1%	27	21.8%	45	9.7%	30	13.6%	31	15.8%	30	19.2%	31	16.1%	23	18.0%	30	15.6%	23	16.1%	31

Loss Ratio and Return on Net Worth Data from NAIC Report on Profitability By-line By State 1998

Evaluation of Competition

Based upon the evidence presented here, there is no indication that competition does not generally exist in the market for other commercial liability insurance. The hard portion of the underwriting cycle had a detrimental impact on premium rates and availability and caused restricted underwriting practices for certain businesses from 1985 to 1987. However, with the turn around in the underwriting cycle we are observing an unprecedented period of softer markets and a mellowing of the underwriting cycle since 1987. Competition has maintained premium levels and availability even though insurer profits diminished during 1992 and 1993. Insurer profits rose from 1994 to 1997 and as insurer reserves and surplus have grown, availability as measured by surplus lines share has improved. The 1998 data indicate that insurer profits could be beginning to be pinched as the price competition of the last couple of years has reduced premium revenues.

Businesses purchasing insurance lines that became dominated by surplus lines insurers in 1986 have found an increasing selection of traditional insurers as well as alternatives to traditional insurance such as purchasing groups and risk retention groups and, for certain specialty lines, limited liability pools from which to choose.

V. **National Trends and Evaluation of Competition for 1999**

A. M. Best's Company tracks and reports on some national data as part of its insurance company tracking services. In their November 1, 1999 issue of Best Week, they presented the results of a study by Risk Management Solutions, which indicated that insurance companies had excess reserves of 100 billion dollars. In their November 8 1999 issue of Best Week, they published a J. P. Morgan Securities Inc. survey of commercial rates, which showed that rates were still declining during 1999, albeit at a small 0.8 percent rate. In their November 29, 1999 issue of Best Week, they indicated that insurer insolvencies are at the lowest level in 30 years that they have maintained records. In their December 13, 1999 issue of Best Week, they published a property and casualty statistical study indicating that through the third quarter of 1999 P&C loss ratios were continuing to rise and that some insurers were beginning to strengthen their reserves.

All of these national results point to continued soft markets through the end of 1999. The rising loss ratios are indicative of insurers competing for business. On the other hand, loss ratios have risen to the point where insurers are beginning to worry about the adequacy of their reserves. This could mean markets are approaching an end to declining rates and that in the year 2000 property and casualty insurance premiums will probably level off.

Preliminary indications are that 1999 was a good year for buyers of commercial lines of insurance. Business experienced small declines in their insurance premiums. Insurers still have rates that are adequate to maintain their profitability. It is not unreasonable to conclude that this market remained quite competitive during 1999.

Appendix E-1

Loss Ratios - Medical Malpractice with Rank of State (from lowest to highest) 1989 - 1998

YEAR	1998 LossR/Rank		1997 LossR/Rank		1996 LossR/Rank		1995 LossR/Rank		1994 LossR/Rank		1993 LossR/Rank		1992 LossR/Rank		1991 LossR/Rank		1990 LossR/Rank		1989 LossR/Rank		Average LossR/Rank	
US	73.0%		57.8%		62.9%		59.3%		59.3%		64.6%		69.5%		55.7%		53.9%		53.2%		60.9%	
Alabama	39.9%	11	-41.8%	1	48.5%	14	58.0%	30	54.9%	26	59.0%	33	27.4%	8	24.1%	9	80.4%	47	48.2%	21	39.9%	8
Alaska	16.7%	5	10.2%	6	34.7%	5	45.3%	11	39.9%	17	47.2%	19	28.9%	10	19.0%	7	24.1%	9	15.9%	3	28.2%	1
Arizona	99.4%	42	73.5%	32	75.6%	34	37.2%	6	47.9%	22	52.7%	25	35.4%	13	50.5%	28	56.7%	38	54.7%	28	58.4%	32
Arkansas	98.6%	41	143.4%	50	102.0%	49	77.5%	43	39.0%	14	66.0%	38	50.2%	28	55.9%	35	59.7%	41	42.0%	13	73.4%	44
California	41.3%	13	44.3%	18	45.0%	11	41.5%	8	37.5%	11	38.1%	12	39.8%	21	9.0%	4	35.6%	18	39.5%	8	37.2%	7
Colorado	51.1%	16	29.6%	11	45.8%	12	52.6%	22	77.1%	41	48.6%	20	36.2%	14	36.6%	15	-0.7%	3	90.3%	46	46.7%	17
Connecticut	156.2%	50	66.3%	29	57.6%	22	49.4%	17	52.4%	24	50.2%	21	53.3%	31	33.3%	13	49.5%	29	43.4%	17	61.2%	33
Delaware	16.4%	4	32.5%	13	98.9%	47	21.2%	2	-33.3%	1	51.5%	23	27.5%	9	97.5%	47	-23.1%	2	129.9%	49	41.9%	11
Dist of Colombia	103.0%	44	37.9%	14	94.6%	46	104.3%	51	36.4%	10	70.8%	42	172.1%	50	104.7%	50	103.6%	50	79.2%	43	90.7%	49
Florida	89.0%	38	98.2%	46	70.8%	32	86.2%	47	76.4%	40	54.6%	28	64.7%	36	45.4%	23	42.8%	23	41.0%	11	66.9%	35
Georgia	71.0%	25	72.9%	31	51.1%	18	47.2%	16	57.0%	31	41.6%	13	44.2%	24	44.5%	22	54.5%	36	75.8%	41	56.0%	27
Hawaii	73.3%	28	8.8%	5	58.9%	24	62.2%	32	92.2%	47	86.6%	46	-39.1%	1	69.2%	41	30.1%	13	0.8%	1	44.3%	12
Idaho	330.0%	51	62.1%	28	24.9%	3	73.7%	39	37.8%	12	36.4%	11	46.5%	26	1.7%	2	32.4%	15	28.8%	6	67.4%	36
Illinois	81.8%	35	55.8%	24	54.6%	20	73.7%	39	86.7%	45	99.9%	49	108.9%	48	84.1%	45	63.6%	44	65.4%	38	77.5%	45
Indiana	30.2%	8	25.3%	9	55.8%	21	57.1%	29	19.5%	6	35.6%	10	17.1%	5	39.1%	17	46.6%	28	14.6%	2	34.1%	4
Iowa	32.2%	9	101.8%	48	43.5%	9	62.2%	32	7.0%	3	60.5%	36	36.8%	15	38.5%	16	30.3%	14	46.6%	20	45.9%	15
Kansas	50.8%	15	49.9%	23	50.2%	17	55.8%	27	65.8%	35	55.6%	30	26.7%	7	4.8%	3	46.2%	26	40.2%	9	44.6%	13
Kentucky	75.9%	31	84.5%	37	107.5%	51	99.2%	49	54.9%	26	101.1%	51	72.3%	42	52.8%	32	41.3%	21	42.3%	15	73.2%	43
Louisianna	52.1%	17	28.2%	10	47.7%	13	62.9%	34	28.3%	8	32.7%	6	37.2%	16	45.9%	24	74.8%	46	41.5%	12	45.1%	14
Maine	19.4%	6	-4.1%	4	48.8%	15	24.5%	3	22.1%	7	50.6%	22	70.8%	41	69.4%	42	52.4%	33	54.1%	26	40.8%	10
Maryland	111.2%	47	77.7%	35	76.9%	35	54.9%	24	70.6%	36	45.4%	17	50.8%	29	34.2%	14	62.7%	43	78.0%	42	66.2%	34
Massachusetts	86.3%	37	95.0%	44	61.8%	25	50.0%	18	6.5%	2	22.1%	4	11.8%	4	77.3%	43	32.8%	16	63.4%	35	50.7%	22
Michigan	43.4%	14	32.0%	12	38.1%	7	26.4%	4	59.6%	33	60.9%	37	57.7%	33	63.6%	38	59.3%	39	51.6%	23	49.3%	19
Minnesota	61.5%	20	-8.9%	2	70.0%	31	27.8%	5	38.3%	13	32.8%	7	38.3%	18	50.3%	27	18.9%	5	18.7%	4	34.8%	5
Mississippi	68.3%	23	145.0%	51	100.8%	48	76.7%	42	97.9%	49	33.5%	8	44.1%	23	40.1%	20	34.5%	17	58.8%	31	70.0%	40

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix E-1

Loss Ratios - Medical Malpractice with Rank of State (from lowest to highest)
1989 - 1998

YEAR	1998		1997		1996		1995		1994		1993		1992		1991		1990		1989		Average	
	LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank		LossR/Rank	
Missouri	59.6%	19	48.4%	21	92.4%	44	50.9%	20	54.7%	25	54.6%	28	51.3%	30	52.3%	31	45.7%	25	51.9%	24	56.2%	29
Montana	72.7%	27	60.0%	25	90.9%	43	51.4%	21	42.2%	19	53.5%	27	72.8%	43	39.6%	19	21.7%	7	55.8%	29	56.1%	28
Nebraska	28.4%	7	40.2%	17	39.4%	8	45.8%	12	46.8%	21	43.4%	15	30.0%	11	39.4%	18	41.0%	20	53.2%	25	40.8%	9
Nevada	108.3%	46	119.2%	49	94.1%	45	55.6%	26	83.8%	44	97.7%	48	37.6%	17	52.0%	30	40.4%	19	35.2%	7	72.4%	42
New Hampshire	34.6%	10	49.6%	22	35.2%	6	61.6%	31	88.5%	46	55.9%	31	8.2%	3	51.0%	29	28.4%	12	49.4%	22	46.2%	16
New Jersey	55.2%	18	60.8%	26	105.3%	50	79.9%	44	75.6%	38	80.6%	45	90.3%	47	90.6%	46	84.9%	48	64.7%	37	78.8%	47
New Mexico	112.7%	48	91.5%	41	89.4%	42	101.6%	50	80.1%	42	59.9%	35	67.6%	38	68.6%	40	52.8%	34	58.7%	30	78.3%	46
New York	78.5%	34	21.9%	8	49.5%	16	46.7%	15	73.3%	37	95.0%	47	144.7%	49	77.4%	44	64.8%	45	43.1%	16	69.5%	39
North Carolina	81.9%	36	95.6%	45	58.5%	23	64.2%	36	75.8%	39	70.1%	41	66.4%	37	61.4%	36	54.6%	37	60.0%	34	68.9%	38
North Dakota	-139.3%	1	46.0%	20	-6.9%	1	52.8%	23	138.7%	51	0.3%	2	69.2%	40	28.9%	11	4.3%	4	89.9%	45	28.4%	2
Ohio	92.0%	39	86.1%	38	79.3%	36	75.4%	41	50.0%	23	78.1%	44	63.9%	35	54.6%	33	44.6%	24	59.3%	32	68.3%	37
Oklahoma	72.3%	26	20.0%	7	85.7%	39	72.0%	38	56.3%	30	46.8%	18	188.5%	51	44.2%	21	49.9%	30	65.7%	39	70.1%	41
Oregon	75.4%	29	39.6%	16	65.7%	28	42.4%	9	39.3%	16	-0.5%	1	60.5%	34	-31.6%	1	22.2%	8	54.1%	26	36.7%	6
Pennsylvania	75.7%	30	70.7%	30	67.2%	30	56.9%	28	35.0%	9	51.6%	24	23.0%	6	102.2%	49	60.1%	42	40.3%	10	58.3%	31
Rhode Island	69.5%	24	77.0%	34	88.1%	40	68.9%	37	39.0%	14	43.2%	14	32.2%	12	11.8%	5	46.2%	26	26.2%	5	50.2%	20
South Carolina	108.1%	45	45.9%	19	53.3%	19	37.9%	7	57.3%	32	9.7%	3	0.5%	2	67.4%	39	51.7%	32	87.7%	44	52.0%	24
South Dakota	-3.5%	2	86.6%	39	75.3%	33	42.4%	9	41.4%	18	69.8%	39	47.7%	27	17.8%	6	53.2%	35	42.0%	13	47.3%	18
Tennessee	39.9%	11	98.4%	47	65.6%	27	55.0%	25	55.2%	29	44.3%	16	39.6%	20	24.7%	10	51.2%	31	64.1%	36	53.8%	26
Texas	100.9%	43	73.6%	33	81.7%	37	85.6%	46	93.5%	48	100.4%	50	85.4%	46	98.5%	48	122.4%	51	92.8%	47	93.5%	51
Utah	150.1%	49	92.3%	42	89.1%	41	81.6%	45	81.3%	43	71.5%	43	68.0%	39	55.2%	34	24.6%	10	75.3%	40	78.9%	48
Vermont	63.8%	21	38.9%	15	62.5%	26	16.7%	1	17.6%	4	35.3%	9	74.6%	44	32.9%	12	25.7%	11	135.7%	50	50.4%	21
Virginia	76.8%	33	61.8%	27	44.4%	10	50.6%	19	46.2%	20	59.7%	34	42.5%	22	46.2%	25	42.5%	22	44.8%	18	51.6%	23
Washington	64.5%	22	79.6%	36	66.6%	29	45.8%	12	61.3%	34	57.2%	32	56.5%	32	22.3%	8	20.5%	6	59.5%	33	53.4%	25
West Virginia	76.0%	32	92.8%	43	83.8%	38	88.3%	48	123.7%	50	70.0%	40	84.0%	45	111.0%	51	89.8%	49	109.0%	48	92.8%	50
Wisconsin	13.9%	3	-7.2%	3	13.0%	2	45.9%	14	19.0%	5	27.1%	5	45.6%	25	48.9%	26	59.5%	40	46.5%	19	31.2%	3
Wyoming	98.0%	40	91.0%	40	33.9%	4	64.1%	35	54.9%	26	53.1%	26	38.4%	19	61.6%	37	-76.5%	1	155.4%	51	57.4%	30

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix E-2

Loss Ratios - Other Commercial Liability with Rank of State (from lowest to highest)
1989 - 1998

YEAR	1998 LossR/Rank		1997 LossR/Rank		1996 LossR/Rank		1995 LossR/Rank		1994 LossR/Rank		1993 LossR/Rank		1992 LossR/Rank		1991 LossR/Rank		1990 LossR/Rank		1989 LossR/Rank		Average LossR/Rank	
US	71.0%		62.1%		71.7%		80.6%		71.1%		77.1%		73.0%		64.6%		64.5%		68.8%		70.5%	
Alabama	81.2%	39	80.8%	44	57.0%	29	68.4%	27	57.6%	27	52.7%	21	47.4%	23	59.4%	36	74.6%	47	56.9%	29	63.6%	37
Alaska	52.0%	21	30.6%	10	12.1%	1	48.9%	8	51.6%	21	66.9%	35	43.7%	14	97.6%	50	45.9%	17	43.8%	6	49.3%	16
Arizona	61.1%	31	65.9%	40	75.9%	42	63.4%	22	59.4%	29	77.8%	39	89.1%	48	92.8%	49	68.8%	45	64.8%	37	71.9%	43
Arkansas	43.2%	11	52.8%	26	54.1%	26	60.1%	20	38.5%	9	61.9%	31	48.4%	25	41.9%	17	36.6%	6	37.8%	2	47.5%	14
California	82.4%	41	70.6%	43	78.0%	43	95.3%	43	78.8%	44	130.5%	51	130.2%	51	76.3%	41	83.3%	50	85.5%	49	91.1%	51
Colorado	54.3%	23	-66.6%	1	146.4%	51	68.9%	30	49.4%	19	58.3%	27	52.3%	29	53.6%	32	62.7%	38	56.4%	28	53.6%	23
Connecticut	55.8%	27	59.3%	36	97.1%	49	97.8%	44	56.1%	24	79.2%	40	75.6%	45	72.4%	40	47.7%	18	55.6%	26	69.7%	42
Delaware	74.8%	36	68.6%	41	39.0%	9	128.1%	50	102.7%	50	66.6%	34	40.5%	11	87.9%	47	66.8%	43	74.9%	44	75.0%	44
Dist of Colombia	56.0%	28	57.7%	35	31.9%	5	47.6%	7	35.4%	5	53.3%	22	53.8%	33	36.4%	9	41.2%	11	41.1%	4	45.4%	10
Florida	52.8%	22	63.0%	37	69.6%	36	67.3%	26	61.7%	34	60.7%	30	77.4%	46	82.4%	44	63.9%	41	79.2%	47	67.8%	41
Georgia	47.6%	15	63.8%	38	52.2%	22	68.7%	28	49.1%	17	48.8%	18	57.8%	35	56.0%	33	57.0%	32	52.4%	19	55.3%	26
Hawaii	38.9%	9	41.1%	19	55.4%	27	46.7%	6	39.3%	10	32.4%	4	36.4%	5	36.1%	8	41.5%	12	53.9%	24	42.2%	6
Idaho	35.2%	7	40.2%	17	50.9%	20	130.8%	51	67.9%	36	80.6%	41	45.1%	19	35.2%	7	50.5%	23	44.1%	7	58.1%	28
Illinois	86.7%	45	53.0%	27	61.7%	33	98.8%	45	82.7%	46	106.7%	48	50.8%	28	84.4%	45	62.2%	37	64.5%	35	75.2%	45
Indiana	20.1%	2	85.0%	47	48.3%	18	75.7%	38	61.9%	35	60.6%	29	61.5%	38	44.2%	19	35.5%	5	53.1%	20	54.6%	24
Iowa	42.9%	10	39.9%	16	31.5%	4	36.9%	2	50.3%	20	34.5%	6	42.3%	13	41.3%	15	47.8%	19	38.7%	3	40.6%	5
Kansas	84.8%	43	28.1%	6	41.5%	12	55.1%	16	59.4%	29	49.3%	19	32.7%	3	49.1%	27	55.4%	30	44.6%	8	50.0%	18
Kentucky	34.8%	6	69.1%	42	75.7%	41	69.1%	31	38.2%	8	47.3%	17	50.1%	27	37.8%	11	43.5%	15	51.3%	17	51.7%	20
Louisianna	85.6%	44	87.4%	49	87.0%	46	84.7%	41	60.9%	31	62.9%	33	87.5%	47	116.6%	51	82.0%	49	89.1%	50	84.4%	49
Maine	48.2%	19	34.4%	14	36.9%	7	75.2%	37	42.6%	12	37.9%	10	44.6%	18	34.2%	5	51.7%	25	65.9%	40	47.2%	13
Maryland	45.9%	12	28.9%	8	61.7%	33	54.8%	14	49.1%	17	58.5%	28	40.3%	10	35.1%	6	54.1%	28	63.8%	34	49.2%	15
Massachusetts	102.5%	49	33.7%	12	59.8%	31	56.7%	18	54.0%	22	40.5%	11	43.9%	16	64.5%	38	67.3%	44	80.3%	48	60.3%	33
Michigan	80.6%	37	33.7%	12	46.7%	16	73.0%	34	99.6%	49	70.8%	38	64.6%	39	52.4%	31	57.7%	33	48.2%	15	62.7%	35
Minnesota	54.5%	24	54.8%	31	51.3%	21	61.7%	21	58.4%	28	41.5%	13	44.3%	17	43.1%	18	50.0%	21	46.8%	11	50.6%	19
Mississippi	80.7%	38	64.5%	39	71.9%	39	68.8%	29	80.7%	45	50.2%	20	66.6%	40	47.4%	23	73.8%	46	65.5%	38	67.0%	39

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix E-2

Loss Ratios - Other Commercial Liability with Rank of State (from lowest to highest) 1989 - 1998

YEAR	1998 LossR/Rank		1997 LossR/Rank		1996 LossR/Rank		1995 LossR/Rank		1994 LossR/Rank		1993 LossR/Rank		1992 LossR/Rank		1991 LossR/Rank		1990 LossR/Rank		1989 LossR/Rank		Average LossR/Rank	
Missouri	81.6%	40	55.5%	32	59.2%	30	79.3%	39	67.9%	36	47.2%	16	71.8%	41	61.1%	37	64.0%	42	60.6%	33	64.8%	38
Montana	47.7%	18	-10.4%	2	53.6%	25	109.0%	48	60.9%	31	103.4%	47	52.6%	31	25.8%	4	41.0%	9	41.8%	5	52.5%	21
Nebraska	29.1%	5	20.9%	4	41.4%	11	36.7%	1	46.8%	16	43.4%	14	30.0%	2	39.4%	12	41.0%	9	53.2%	21	38.2%	3
Nevada	90.9%	46	56.9%	34	53.0%	23	54.8%	14	60.9%	31	56.8%	25	29.6%	1	41.8%	16	51.9%	27	36.6%	1	53.3%	22
New Hampshire	119.8%	51	41.4%	20	69.7%	37	66.2%	25	-3.3%	1	116.8%	50	52.5%	30	47.3%	22	33.3%	2	53.5%	23	59.7%	32
New Jersey	111.6%	50	84.7%	46	74.4%	40	108.3%	47	86.4%	47	62.4%	32	75.4%	44	59.3%	35	56.8%	31	70.8%	43	79.0%	46
New Mexico	35.7%	8	17.2%	3	59.9%	32	79.5%	40	71.6%	40	87.9%	44	52.7%	32	78.2%	43	43.6%	16	59.0%	31	58.5%	29
New York	91.6%	48	101.6%	50	106.8%	50	102.5%	46	97.8%	48	86.7%	43	94.6%	49	76.3%	41	77.6%	48	75.1%	45	91.1%	50
North Carolina	68.8%	35	34.5%	15	46.1%	15	49.6%	9	42.8%	13	45.3%	15	38.9%	7	37.6%	10	34.7%	4	48.6%	16	44.7%	9
North Dakota	22.3%	4	27.8%	5	21.6%	2	54.5%	12	33.4%	4	37.0%	9	40.8%	12	21.8%	2	34.6%	3	48.0%	14	34.2%	1
Ohio	47.6%	15	56.4%	33	87.4%	47	71.5%	33	70.6%	39	69.2%	37	43.7%	14	49.0%	26	58.8%	34	119.9%	51	67.4%	40
Oklahoma	83.2%	42	54.2%	29	69.8%	38	73.5%	35	38.1%	7	68.0%	36	48.1%	24	57.8%	34	50.0%	21	64.7%	36	60.7%	34
Oregon	68.3%	34	43.3%	23	55.7%	28	52.0%	10	46.6%	15	34.9%	7	49.4%	26	24.3%	3	40.3%	8	51.6%	18	46.6%	12
Pennsylvania	55.4%	26	117.0%	51	84.3%	45	109.0%	48	107.0%	51	91.0%	45	74.3%	43	65.6%	39	60.4%	35	67.6%	42	83.2%	48
Rhode Island	67.4%	33	81.2%	45	50.6%	19	65.9%	24	45.8%	14	40.6%	12	45.5%	20	39.7%	14	61.2%	36	58.6%	30	55.7%	27
South Carolina	55.1%	25	29.5%	9	62.5%	35	73.6%	36	57.3%	26	80.7%	42	39.4%	9	52.1%	30	42.9%	14	53.9%	24	54.7%	25
South Dakota	57.2%	29	32.6%	11	36.1%	6	54.5%	12	37.3%	6	36.4%	8	39.3%	8	39.5%	13	39.2%	7	59.0%	31	43.1%	8
Tennessee	46.6%	13	46.0%	24	38.9%	8	46.5%	5	39.4%	11	32.4%	4	34.2%	4	20.8%	1	51.1%	24	46.8%	11	40.3%	4
Texas	62.6%	32	54.2%	29	95.5%	48	87.0%	42	68.8%	38	102.6%	46	97.7%	50	87.8%	46	95.4%	51	77.8%	46	82.9%	47
Utah	21.1%	3	53.6%	28	41.6%	13	55.6%	17	56.9%	25	28.1%	1	60.0%	37	49.9%	28	51.8%	26	45.7%	10	46.4%	11
Vermont	47.4%	14	85.6%	48	80.6%	44	58.7%	19	74.4%	43	29.4%	3	54.0%	34	89.5%	48	24.1%	1	46.9%	13	59.1%	30
Virginia	47.6%	15	40.2%	17	46.7%	16	42.8%	4	26.9%	2	28.3%	2	38.2%	6	47.5%	24	41.8%	13	65.6%	39	42.6%	7
Washington	58.0%	30	51.2%	25	45.4%	14	70.1%	32	73.2%	41	53.5%	23	72.2%	42	44.2%	19	63.1%	39	66.0%	41	59.7%	31
West Virginia	90.9%	46	42.9%	22	53.5%	24	39.4%	3	73.4%	42	106.7%	48	58.5%	36	47.5%	24	63.1%	39	53.2%	21	62.9%	36
Wisconsin	49.4%	20	41.4%	20	29.1%	3	64.3%	23	54.0%	22	55.9%	24	47.1%	22	51.1%	29	49.8%	20	56.3%	27	49.8%	17
Wyoming	-21.8%	1	28.7%	7	39.2%	10	52.5%	11	27.0%	3	57.6%	26	46.9%	21	46.5%	21	55.3%	29	45.5%	9	37.7%	2

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix F-1

Return on Net Worth - Medical Malpractice Insurance with Rank of State (from lowest to highest) 1989 - 1998

YEAR	1998 RONW	/Rank	1997 RONW	/Rank	1996 RONW	/Rank	1995 RONW	/Rank	1994 RONW	/Rank	1993 RONW	/Rank	1992 RONW	/Rank	1991 RONW	/Rank	1990 RONW	/Rank	1989 RONW	/Rank	Average RONW	/Rank
US	7.6%		12.6%		12.6%		12.7%		13.7%		15.3%		15.5%		15.9%		17.4%		22.5%		14.6%	
Alabama	17.9%	43	22.5%	48	15.2%	40	16.3%	37	16.0%	31	16.4%	27	31.1%	41	37.2%	43	-5.0%	3	23.8%	31	19.1%	40
Alaska	19.0%	46	19.9%	45	13.9%	35	14.1%	35	11.3%	20	3.0%	6	16.0%	19	39.8%	47	38.0%	42	58.2%	50	23.3%	47
Arizona	-1.4%	12	4.7%	16	2.7%	14	12.4%	27	13.8%	26	14.5%	22	19.2%	23	14.6%	21	10.5%	9	19.2%	26	11.0%	16
Arkansas	0.7%	16	-13.8%	2	-4.7%	3	0.4%	7	16.0%	31	7.0%	9	15.2%	16	11.7%	16	8.3%	8	27.3%	36	6.8%	7
California	13.8%	38	13.8%	30	11.6%	28	12.9%	29	15.0%	30	15.1%	24	15.9%	18	37.7%	44	25.6%	33	29.2%	38	19.1%	39
Colorado	12.2%	37	20.9%	47	18.4%	44	8.1%	19	-3.6%	8	13.4%	16	26.1%	37	24.2%	35	62.7%	49	-12.7%	4	17.0%	31
Connecticut	-4.5%	8	12.9%	27	13.7%	34	17.9%	39	16.3%	33	23.6%	41	22.0%	29	29.6%	40	21.5%	26	29.8%	42	18.3%	34
Delaware	19.8%	47	16.5%	36	1.9%	12	23.3%	47	53.7%	51	15.5%	26	30.0%	40	-6.9%	5	63.4%	50	-18.1%	3	19.9%	42
Dist of Colombia	-5.4%	6	19.0%	41	-1.3%	9	-3.8%	4	25.8%	43	17.0%	29	-26.3%	2	-21.2%	1	-27.6%	1	0.2%	12	-2.4%	2
Florida	-0.5%	14	-5.1%	6	7.7%	21	-4.7%	2	-0.7%	10	15.4%	25	14.7%	15	19.7%	29	23.5%	30	30.6%	43	10.1%	15
Georgia	6.7%	23	6.9%	21	13.9%	35	14.6%	36	12.9%	24	23.2%	39	25.8%	36	19.0%	28	13.9%	16	0.5%	13	13.7%	21
Hawaii	-4.7%	7	19.7%	43	3.5%	16	0.9%	8	-8.8%	4	-9.1%	2	54.5%	51	-1.2%	7	28.0%	35	59.0%	51	14.2%	22
Idaho	-68.4%	1	8.7%	24	21.2%	47	-0.1%	6	18.6%	35	14.8%	23	8.4%	9	53.2%	50	31.5%	37	39.7%	47	12.8%	19
Illinois	5.7%	21	12.9%	27	18.2%	43	7.6%	18	5.4%	15	3.6%	7	5.5%	6	3.1%	11	14.4%	18	18.1%	25	9.5%	13
Indiana	14.8%	40	11.2%	26	11.2%	26	9.1%	21	23.3%	40	23.5%	40	31.1%	41	25.6%	38	22.2%	27	45.5%	48	21.8%	43
Iowa	20.2%	49	-0.5%	8	17.4%	41	13.3%	31	35.8%	50	16.9%	28	31.8%	43	25.5%	37	34.1%	40	25.7%	34	22.0%	45
Kansas	9.0%	26	10.2%	25	13.6%	33	10.1%	24	4.2%	13	11.3%	12	35.1%	47	49.4%	49	17.7%	23	29.4%	41	19.0%	37
Kentucky	5.6%	20	3.1%	14	-3.9%	5	-2.8%	5	13.9%	28	-0.1%	5	13.6%	12	15.1%	22	24.1%	31	29.1%	37	9.8%	14
Louisianna	9.5%	28	17.7%	39	11.3%	27	2.1%	11	19.9%	37	22.8%	38	20.7%	26	20.9%	30	6.5%	7	29.2%	38	16.1%	27
Maine	18.8%	44	33.8%	50	12.9%	31	25.4%	50	29.4%	46	19.0%	32	14.0%	14	5.3%	12	13.9%	16	16.3%	24	18.9%	36
Maryland	-7.4%	4	1.2%	10	8.5%	22	7.1%	16	2.3%	11	14.2%	20	19.8%	25	23.0%	34	4.8%	6	-1.0%	10	7.3%	9
Massachusetts	9.3%	27	7.0%	22	14.0%	37	16.7%	38	34.1%	49	28.3%	46	34.5%	46	0.5%	8	30.5%	36	12.8%	17	18.8%	35
Michigan	15.4%	41	19.5%	42	20.4%	46	23.5%	48	13.8%	26	18.9%	31	22.1%	30	12.0%	17	13.8%	14	23.0%	29	18.2%	33
Minnesota	10.3%	30	35.9%	51	9.2%	24	28.2%	51	24.1%	41	32.1%	48	33.6%	44	17.8%	24	45.5%	46	53.3%	49	29.0%	51
Mississippi	7.0%	24	-18.3%	1	-5.2%	2	2.8%	12	-9.8%	3	26.2%	44	23.0%	33	22.3%	33	27.3%	34	15.7%	22	9.1%	12

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix F-1

Return on Net Worth - Medical Malpractice Insurance with Rank of State (from lowest to highest) 1988 - 1997

YEAR	1998		1997		1996		1995		1994		1993		1992		1991		1990		1989		Average	
	RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank		RONW/Rank	
Montana	11.6%	35	14.5%	31	-5.8%	1	12.2%	26	20.1%	38	13.2%	15	7.2%	8	24.9%	36	46.5%	47	15.8%	23	16.0%	26
Nebraska	19.8%	47	15.4%	35	18.1%	42	13.6%	32	27.9%	44	25.5%	43	21.2%	27	35.9%	42	35.5%	41	7.1%	14	22.0%	44
Nevada	-0.7%	13	-9.3%	4	-3.8%	6	13.6%	32	-3.5%	9	-11.0%	1	27.8%	38	14.0%	20	24.9%	32	37.0%	46	8.9%	10
New Hampshire	17.8%	42	13.4%	29	25.2%	49	9.9%	23	-5.5%	6	14.0%	19	42.0%	48	18.1%	25	32.4%	38	23.2%	30	19.1%	38
New Jersey	14.3%	39	14.7%	32	4.9%	17	7.3%	17	8.2%	16	9.6%	11	1.8%	4	-2.0%	6	-2.8%	4	14.4%	20	7.0%	8
New Mexico	-12.2%	2	-6.0%	5	-1.6%	7	1.0%	9	-5.7%	5	5.8%	8	-3.7%	3	1.7%	9	14.4%	18	14.3%	19	0.8%	4
New York	9.7%	29	20.7%	46	18.8%	45	19.9%	42	14.4%	29	13.8%	18	4.0%	5	13.3%	18	17.4%	22	29.2%	38	16.1%	29
North Carolina	4.0%	18	1.2%	10	11.8%	30	8.4%	20	4.2%	13	11.9%	13	17.3%	20	7.8%	13	12.9%	11	11.0%	16	9.1%	11
North Dakota	78.1%	51	16.6%	37	37.9%	51	20.0%	43	-21.9%	1	52.6%	51	18.2%	21	32.8%	41	52.7%	48	-9.8%	6	27.7%	50
Ohio	-4.3%	9	4.7%	16	6.8%	19	6.5%	15	19.7%	36	12.4%	14	21.9%	28	13.4%	19	21.4%	25	14.1%	18	11.7%	17
Oklahoma	5.7%	21	19.7%	43	0.8%	10	4.7%	14	9.7%	18	18.2%	30	-46.3%	1	21.2%	31	14.5%	20	-0.6%	11	4.8%	5
Oregon	7.8%	25	14.9%	33	8.8%	23	20.4%	44	20.8%	39	45.0%	50	15.6%	17	65.9%	51	38.2%	43	20.3%	28	25.8%	49
Pennsylvania	4.9%	19	8.4%	23	7.2%	20	10.5%	25	30.1%	47	20.3%	34	44.7%	49	-7.5%	4	13.8%	14	33.6%	44	16.6%	30
Rhode Island	11.5%	33	0.6%	9	-4.3%	4	-5.6%	1	11.7%	21	23.9%	42	33.7%	45	39.6%	46	23.0%	29	35.8%	45	17.0%	32
South Carolina	-6.5%	5	14.9%	33	13.2%	32	22.9%	46	10.4%	19	34.5%	49	48.0%	50	8.4%	14	17.1%	21	-2.0%	9	16.1%	28
South Dakota	31.3%	50	3.5%	15	2.9%	15	18.6%	40	24.3%	42	13.7%	17	22.4%	32	41.1%	48	13.6%	13	24.8%	32	19.6%	41
Tennessee	11.5%	33	1.5%	13	9.8%	25	13.8%	34	11.7%	21	19.7%	33	22.1%	30	22.2%	32	12.9%	11	7.7%	15	13.3%	20
Texas	-1.7%	11	6.7%	20	1.5%	11	-4.0%	3	-4.4%	7	-2.9%	4	5.6%	7	-9.4%	2	-26.3%	2	-4.5%	8	-3.9%	1
Utah	-10.6%	3	1.4%	12	2.1%	13	3.5%	13	3.1%	12	9.0%	10	13.8%	13	9.4%	15	41.2%	44	-7.7%	7	6.5%	6
Vermont	12.0%	36	17.9%	40	14.0%	37	24.4%	49	31.9%	48	26.5%	45	10.6%	10	27.7%	39	33.9%	39	-40.6%	2	15.8%	25
Virginia	3.4%	17	6.3%	19	14.7%	39	12.8%	28	18.1%	34	14.2%	20	19.0%	22	18.9%	27	22.5%	28	26.5%	35	15.6%	24
Washington	10.3%	30	5.8%	18	11.6%	28	22.4%	45	12.5%	23	20.3%	34	19.7%	24	39.2%	45	44.5%	45	14.6%	21	25.3%	48
West Virginia	-2.5%	10	-3.3%	7	6.1%	18	9.7%	22	-15.5%	2	20.7%	37	12.4%	11	-8.6%	3	-1.9%	5	-11.6%	5	0.6%	3
Wisconsin	18.9%	45	28.3%	49	25.1%	48	19.4%	41	28.0%	45	30.0%	47	25.0%	35	18.4%	26	10.5%	9	25.4%	33	22.9%	46
Wyoming	-0.5%	14	-11.8%	3	33.4%	50	1.1%	10	8.3%	17	-5.1%	3	28.4%	39	2.0%	10	142.9%	51	-80.8%	1	11.8%	18
Montana	11.6%	35	14.5%	31	-5.8%	1	12.2%	26	20.1%	38	13.2%	15	7.2%	8	24.9%	36	46.5%	47	15.8%	23	16.0%	26

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix F-2

Return on Net Worth - Other Commercial Liability Insurance with Rank of State (from lowest to highest)
1989 - 1998

YEAR	1998		1997		1996		1995		1994		1993		1992		1991		1990		1989		Average	
	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank
US	9.7%		12.1%		8.6%		2.6%		6.3%		6.4%		8.3%		10.3%		9.5%		8.3%		8.2%	
Alabama	3.0%	7	1.9%	2	12.1%	22	6.0%	21	12.7%	26	16.3%	32	18.0%	27	11.2%	15	0.7%	4	15.5%	22	9.7%	11
Alaska	12.2%	23	21.0%	37	30.7%	50	13.9%	42	9.8%	19	7.7%	14	14.7%	19	-18.1%	1	21.6%	35	26.4%	46	14.0%	25
Arizona	10.3%	20	7.2%	9	2.7%	6	6.9%	24	13.6%	31	7.1%	12	2.2%	5	-9.4%	3	3.6%	6	8.7%	14	5.3%	7
Arkansas	18.0%	44	14.3%	22	16.3%	33	9.9%	31	22.5%	46	13.6%	27	14.1%	18	22.3%	36	28.1%	46	31.5%	51	19.1%	42
California	3.1%	8	6.4%	8	4.0%	7	-3.5%	6	2.4%	10	-11.3%	3	-13.1%	1	5.3%	10	-1.2%	2	-0.8%	3	-0.9%	1
Colorado	12.7%	27	52.0%	48	-15.8%	1	4.9%	18	12.9%	27	12.4%	24	15.3%	22	14.8%	21	9.2%	14	17.3%	28	13.6%	22
Connecticut	16.2%	39	14.6%	23	-1.4%	2	-0.3%	11	11.5%	23	7.3%	13	2.7%	6	6.6%	12	21.4%	34	18.8%	33	9.7%	11
Delaware	9.9%	18	5.9%	6	21.8%	45	-15.9%	2	-2.5%	2	10.0%	18	20.9%	35	-6.2%	5	5.6%	8	1.6%	7	5.1%	6
Dist of Colombia	6.3%	14	13.4%	17	23.3%	47	14.4%	44	16.0%	35	17.0%	33	11.8%	14	27.3%	45	25.0%	42	28.7%	48	18.3%	40
Florida	14.4%	30	98.0%	51	7.5%	14	7.3%	25	10.5%	21	13.2%	26	8.2%	11	-2.0%	8	8.5%	10	-2.1%	2	16.4%	33
Georgia	15.3%	33	90.0%	50	13.9%	25	4.5%	16	15.1%	34	15.9%	31	13.5%	15	13.0%	17	11.7%	16	17.8%	30	21.1%	47
Hawaii	16.2%	39	14.0%	21	11.0%	18	13.6%	41	16.7%	36	19.4%	34	23.1%	44	26.0%	43	23.8%	40	16.2%	24	18.0%	38
Idaho	16.5%	41	18.3%	32	19.4%	41	-21.4%	1	3.8%	12	-1.1%	8	20.9%	35	27.5%	46	16.5%	27	25.5%	42	12.6%	20
Illinois	5.7%	11	15.9%	26	11.6%	21	-1.8%	9	3.4%	11	-2.8%	7	20.3%	34	-0.5%	9	11.9%	17	13.0%	20	7.7%	8
Indiana	22.9%	48	7.3%	10	16.7%	35	3.9%	15	11.8%	25	14.5%	28	15.0%	20	21.0%	32	29.5%	47	17.7%	29	16.0%	30
Iowa	15.8%	38	18.7%	33	24.2%	48	21.6%	49	14.2%	33	26.3%	47	22.1%	39	22.2%	35	18.5%	31	30.1%	49	21.4%	48
Kansas	2.0%	6	16.5%	29	17.6%	38	10.5%	33	11.5%	23	15.4%	29	25.1%	48	17.9%	25	13.3%	20	25.9%	45	15.6%	28
Kentucky	18.0%	44	8.1%	11	5.6%	12	6.4%	22	21.8%	45	20.0%	36	17.7%	26	24.4%	40	22.4%	36	18.7%	32	16.3%	32
Louisianna	14.9%	32	3.8%	5	2.6%	5	-3.3%	8	8.3%	17	11.8%	22	0.0%	3	-13.7%	2	2.5%	5	0.2%	5	1.6%	3
Maine	15.4%	34	18.9%	35	20.9%	44	3.5%	14	20.1%	41	19.6%	35	22.8%	41	27.6%	47	16.4%	26	7.1%	11	17.2%	36
Maryland	1.4%	5	23.0%	42	9.6%	16	15.2%	45	17.4%	38	12.7%	25	21.7%	38	26.5%	44	14.7%	23	10.3%	16	16.7%	35
Massachusetts	10.4%	21	19.6%	36	12.9%	24	11.8%	34	13.2%	29	20.8%	40	19.6%	33	10.8%	14	8.5%	10	-0.8%	3	11.8%	18
Michigan	12.2%	23	22.0%	39	18.6%	40	8.4%	28	-1.4%	3	7.9%	15	15.5%	23	15.5%	22	11.1%	15	20.6%	36	12.9%	21
Minnesota	4.6%	9	15.7%	25	14.6%	28	8.0%	27	10.8%	22	23.1%	42	23.0%	43	22.4%	37	18.6%	32	24.0%	41	17.2%	37
Mississippi	8.0%	17	10.9%	13	7.1%	13	6.6%	23	0.4%	6	20.0%	36	9.5%	13	19.1%	27	-0.4%	3	8.1%	12	8.6%	9

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix F-2

Return on Net Worth - Other Commercial Liability Insurance with Rank of State (from lowest to highest) 1989 - 1998

YEAR	1998		1997		1996		1995		1994		1993		1992		1991		1990		1989		Average	
	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank	RONW	/Rank
Missouri	15.4%	34	15.3%	24	14.7%	29	4.5%	16	8.2%	15	20.2%	38	9.0%	12	11.6%	16	8.6%	12	14.3%	21	11.4%	16
Montana	22.2%	47	34.7%	47	13.9%	25	-10.5%	4	10.2%	20	-11.1%	4	13.9%	16	36.6%	49	25.2%	44	27.9%	47	15.6%	29
Nebraska	-3.0%	2	27.4%	46	20.5%	43	24.2%	51	20.5%	42	23.0%	41	31.7%	51	24.0%	39	24.6%	41	16.7%	27	23.5%	50
Nevada	-3.0%	2	9.2%	12	12.3%	23	11.9%	35	9.2%	18	10.9%	20	18.7%	29	22.1%	34	15.5%	25	31.1%	50	13.8%	23
New Hampshire	-4.3%	1	16.9%	30	9.5%	15	8.7%	29	40.7%	51	-12.1%	2	17.5%	25	20.3%	31	31.0%	50	19.4%	35	14.8%	27
New Jersey	0.9%	4	62.0%	49	11.2%	19	-10.7%	3	-0.2%	5	11.6%	21	6.8%	8	13.2%	18	14.5%	22	6.1%	9	11.5%	17
New Mexico	20.2%	46	25.2%	43	11.2%	19	-1.1%	10	2.2%	9	-6.7%	5	15.2%	21	-2.2%	7	22.6%	37	11.8%	17	9.8%	13
New York	5.5%	10	3.0%	3	1.0%	3	0.5%	12	-0.8%	4	5.1%	11	1.4%	4	6.3%	11	3.6%	6	6.4%	10	3.2%	4
North Carolina	7.0%	16	22.7%	40	17.5%	37	14.1%	43	22.6%	47	20.2%	38	26.3%	49	25.4%	41	30.3%	48	21.0%	37	20.7%	46
North Dakota	28.3%	50	26.2%	45	28.3%	49	12.7%	40	27.8%	50	28.4%	49	24.2%	45	38.4%	51	30.8%	49	22.3%	38	26.7%	51
Ohio	16.6%	42	12.6%	16	4.4%	8	7.7%	26	7.2%	14	10.8%	19	22.9%	42	19.9%	30	15.1%	24	-25.1%	1	9.2%	10
Oklahoma	5.8%	13	12.0%	15	5.1%	11	2.9%	13	20.8%	43	9.3%	17	19.5%	32	13.7%	19	19.8%	33	11.9%	19	12.1%	19
Oregon	6.6%	15	16.2%	28	14.3%	27	12.6%	39	17.0%	37	24.0%	44	18.7%	29	33.6%	48	25.0%	42	19.2%	34	18.7%	41
Pennsylvania	13.1%	29	0.5%	1	4.8%	9	-3.6%	5	-10.7%	1	-1.1%	8	6.8%	8	10.6%	13	12.4%	19	10.0%	15	4.3%	5
Rhode Island	12.5%	26	6.1%	7	16.1%	31	12.3%	38	18.1%	39	23.5%	43	22.4%	40	25.8%	42	12.3%	18	16.5%	26	16.6%	34
South Carolina	12.7%	27	21.7%	38	10.9%	17	5.0%	19	13.1%	28	-0.1%	10	21.3%	37	14.6%	20	22.7%	38	16.2%	24	13.8%	24
South Dakota	10.0%	19	22.7%	40	20.4%	42	10.4%	32	23.0%	48	26.0%	46	24.5%	46	23.5%	38	25.8%	45	11.8%	17	19.8%	44
Tennessee	15.4%	34	17.3%	31	16.8%	36	17.4%	47	21.3%	44	27.8%	48	28.2%	50	38.1%	50	17.2%	28	23.1%	39	22.3%	49
Texas	12.3%	25	13.4%	17	1.0%	3	-3.4%	7	5.9%	13	-5.1%	6	-5.6%	2	-5.2%	6	-13.1%	1	0.6%	6	0.1%	2
Utah	24.6%	49	11.4%	14	17.8%	39	12.1%	37	13.4%	30	28.8%	50	13.9%	16	17.5%	24	17.8%	29	25.7%	44	18.3%	39
Vermont	16.6%	42	3.7%	4	5.0%	10	16.2%	46	8.2%	15	25.6%	45	18.4%	28	-6.5%	4	37.0%	51	23.4%	40	14.8%	26
Virginia	14.4%	30	18.7%	33	15.9%	30	20.2%	48	26.8%	49	30.3%	51	24.5%	46	18.1%	26	23.4%	39	4.2%	8	19.7%	43
Washington	10.6%	22	13.5%	19	16.4%	34	5.3%	20	1.8%	8	11.8%	22	6.5%	7	21.4%	33	8.8%	13	8.2%	13	10.4%	14
West Virginia	5.7%	11	13.9%	20	16.1%	31	22.6%	50	1.7%	7	-15.1%	1	16.7%	24	19.7%	28	7.6%	9	17.9%	31	10.7%	15
Wisconsin	15.4%	34	16.1%	27	21.8%	45	9.7%	30	13.6%	31	15.8%	30	19.2%	31	16.1%	23	18.0%	30	15.6%	23	16.1%	31
Wyoming	38.3%	51	25.7%	44	34.3%	51	11.9%	35	19.1%	40	8.2%	16	7.4%	10	19.8%	29	13.6%	21	25.5%	42	20.4%	45

Source of Data: NAIC Report on Profitability By-line By State 1998

Appendix G

NAIC=s Calculation of Return of Net Worth

The purpose of this appendix is not to reproduce the explanations in the NAIC Profitability Report but rather to provide insight about how the NAIC calculates the statistics. Those who wish to pursue the technical aspects of these calculations should review that report.

Return on net worth is a percentage determined as NAIC=s estimates of operating profits by-line and by state divided by NAIC=s determination of net worth that is allocated to the respective line and state. NAIC estimates by-line by state operating profits as the sum of three by-line by state ratios: an underwriting profit ratio plus a total investment ratio less a federal tax ratio. NAIC determines net worth in each line as countrywide net worth allocated to each state and each line using, for a given line in a given state, that state=s fraction of the countrywide quantity including surplus, excess statutory reserves, unauthorized reinsurance, non-admitted assets, prepaid expenses, salvage and subrogation and deducting deferred taxes. The following sections discuss the component ratios below.

Underwriting Profits Ratio

To obtain the by-line by state underwriting profit ratios, NAIC uses several factors determined as ratios of direct earned premiums. The by-line by state underwriting profit ratios is the residual after subtracting from one (essentially the ratio of earned premiums to itself) the sum of the by-line by state ratios for losses incurred, loss adjustment expenses, general expenses, selling expenses, dividends, and taxes, licenses and fees. The paragraphs below discuss each component.

NAIC determines some of these ratios specifically to each state and line of insurance where data is available from each insurer=s state page. From the state page data, NAIC determines for each line of insurance premiums earned, loss ratios (the most critical components of this calculation) and dividend ratios. Recent changes to the annual statement have added to the state page data allocated loss adjustment expenses, commissions and brokerage expenses and expenses for state taxes, licenses and fees, each of which they develop into ratios of earned premiums. Prior to 1992 these data had to be allocated from countrywide data in the Insurance Expense Exhibits. Prior to 1993 before NAIC mandated that loss data be reported on a net basis, loss data were adjusted by a factor of .997 to reflect salvage and subrogation recoveries. NAIC adjusts several of these ratios to put them on a Generally Accepted Accounting Principles (GAAP) basis.

Some data continues to be only available in the Insurance Expense Exhibit supplement to the Annual Statement at the countrywide level and is not allocated to specific states. NAIC allocates the insurers= countrywide by-line unallocated loss adjustment expenses to each state using each state=s fraction of countrywide losses incurred. The allocated and unallocated loss adjustment expenses are combined to obtain the by-line by state loss adjustment expense ratio.

General expenses are available by-line but are not allocated by state. NAIC determines the general expense ratio as general expenses adjusted to a GAAP basis and divided by countrywide earned premiums by-line. Countrywide by-line other acquisition expenses are allocated to each state and line using the respective ratio of premiums earned to countrywide premiums written. The denominators of the allocation ratios were chosen to adjust the data to a GAAP basis. After the ratio of by-line by state other acquisition expenses to premiums earned ratio is determined, the commissions and brokerage expense ratio is added to obtain the selling expense ratio.

Total Investment Gain Ratio

The total investment gain ratio is one of the more complex and controversial ratios used in the return on net worth calculation. The by-line by state investment gain ratio is the ratio of investment gains allocated to each state and line divided by the respective premiums earned for the given line and state. Somewhat simplified, the calculation of the by-line by state investment gain is countrywide investment gain allocated using the by state and by-line (from page 14 data) fraction of the countrywide quantity for surplus, less agent balances and plus reserves for losses, loss adjustment expense and unearned premium.

Obtaining the countrywide and statewide quantities for agent balances and reserves for losses loss adjustment expense and unearned premium are straight forward. Countrywide surplus is also obtained easily as policyholders= surplus. NAIC allocates industry surplus by-line and by state through the application of a given state and insurance line fraction of countrywide earned premiums plus reserves for losses, loss adjustment expense and unearned premiums.

Federal Tax Ratio

NAIC estimates federal taxes for each line and state by applying an appropriate tax rate to the respective underwriting profit ratio and total investment gain ratio. There are provisions estimating taxes on 15 percent of the interest on tax exempt municipal bonds. Other adjustments include a double deduction for the draw down of pre-1987 loss and loss adjustment reserves which is based on payout patterns.

CERTIFICATION OF THE STATE OF COMPETITION IN THE

COMMERCIAL LIABILITY INSURANCE MARKET

I hereby certify that, based on the results of the economic tests specified in MCLA 500.2409(c), a reasonable degree of competition exists at this time, with respect to the Michigan commercial liability insurance market.

Frank M. Fitzgerald
Commissioner of Insurance

DATE: February 16, 2000